

**REPORT OF THE AUDIT OF THE
BELL COUNTY
SHERIFF'S SETTLEMENT - 2010 UNMINED COAL TAXES**

**For The Period
August 17, 2010 Through July 15, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BELL COUNTY
SHERIFF'S SETTLEMENT - 2010 UNMINED COAL TAXES

For The Period
August 17, 2010 Through July 15, 2011

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Unmined Coal Taxes for the Bell County Sheriff for the period August 17, 2010 through July 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$228,711 for the districts for 2010 Unmined Coal Taxes, retaining commissions of \$8,180 to operate the Sheriff's office. The Sheriff distributed taxes of \$220,542 to the districts for 2010 Unmined Coal Taxes. Refunds of \$11 are due to the Sheriff from the taxing districts.

Report Comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of March 7, 2011 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$259,149

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the Bell County Sheriff's Settlement - 2010 Unmined Coal Taxes for the period August 17, 2010 through July 15, 2011. This tax settlement is the responsibility of the Bell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bell County Sheriff's taxes charged, credited, and paid for the period August 17, 2010 through July 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Albey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized, flowing script.

Adam H. Edelen
Auditor of Public Accounts

January 17, 2012

BELL COUNTY
 BRUCE BENNETT, SHERIFF
SHERIFF'S SETTLEMENT - 2010 UNMINED COAL TAXES

For The Period August 17, 2010 Through July 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2010 Taxes	\$ 32,485	\$ 41,972	\$ 127,643	\$ 35,073
Unmined Coal - 2009 Taxes	571	667	1,910	616
Penalties	8	10	30	8
	<u>33,064</u>	<u>42,649</u>	<u>129,583</u>	<u>35,697</u>
Gross Chargeable to Sheriff				
<u>Credits</u>				
Discounts	595	768	2,336	642
Delinquents:				
Real Estate	1,143	1,406	4,158	1,234
	<u>1,738</u>	<u>2,174</u>	<u>6,494</u>	<u>1,876</u>
Total Credits				
Taxes Collected	31,326	40,475	123,089	33,821
Less: Commissions *	1,331	1,720	3,692	1,437
	<u>29,995</u>	<u>38,755</u>	<u>119,397</u>	<u>32,384</u>
Taxes Due	29,995	38,755	119,397	32,384
Taxes Paid	29,995	38,755	119,408	32,384
	<u>29,995</u>	<u>38,755</u>	<u>119,408</u>	<u>32,384</u>
(Refund Due Sheriff)				
as of Completion of Audit	\$ 0	\$ 0	\$ (11)	\$ 0

* Commissions:

4.25% on \$ 105,622

3% on \$ 123,089

The accompanying notes are an integral part of this financial statement.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT

July 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Bell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

BELL COUNTY
NOTES TO FINANCIAL STATEMENT
July 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 7, 2011, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$259,149

Note 3. Tax Collection Period

Unmined Coal Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 19, 2011 through July 15, 2011.

Note 4. Interest Income

The Bell County Sheriff earned \$10 as interest income on 2010 taxes. As of January 17, 2012, the Sheriff owed \$5 in interest to the school district and \$5 in interest to the Fiscal Court.

Note 5. Sheriff's 10% Add-On Fee

The Bell County Sheriff collected \$62 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Albey Brock, Bell County Judge/Executive
Honorable Bruce Bennett, Bell County Sheriff
Members of the Bell County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Bell County Sheriff's Settlement - 2010 Taxes for the period August 17, 2010 through July 15, 2011, and have issued our report thereon dated January 17, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Bell County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Bell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bell County Sheriff's Settlement - 2010 Taxes for the period August 17, 2010 through July 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Bell County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Bell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

January 17, 2012

COMMENT AND RECOMMENDATION

BELL COUNTY
BRUCE BENNETT, SHERIFF
COMMENT AND RECOMMENDATION

For The Period August 17, 2010 Through July 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the Sheriff's internal control procedures, we identified a lack of adequate segregation of duties over receipts, and disbursements. These control deficiencies are present because one employee's duties include accepting tax payments, recording taxes paid, preparing the daily deposit, preparing monthly tax reports, preparing monthly tax disbursements, and co-signing monthly tax disbursements.

In order to achieve a proper segregation of duties, related activities should be assigned to different individuals. Since budget restrictions may limit the number of staff the Sheriff can hire, it may not be feasible to segregate accounting duties to different individuals. In this situation, the Sheriff should implement compensating controls to mitigate the effects of the lack of adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should frequently compare daily bank deposits, daily checkout sheets, and daily tax reports. Any differences should be reconciled. The Sheriff should document his oversight by initialing the bank deposit, daily checkout sheet, and daily tax report.
- The Sheriff should rotate the employee responsible for entering paid tax bills in the computer. The employee responsible for entering this information could be randomly determined without the employee's prior knowledge.
- The Sheriff should compare monthly tax reports and disbursements to a deposit listing. Any differences should be reconciled. The Sheriff should document his oversight by initialing the listing of deposits.
- The Sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The Sheriff should compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. The Sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: We will make every effort to adequately segregate duties according to law.

